



IN REPLY REFER TO

DEFENSE CONTRACT AUDIT AGENCY

**CAMERON STATION
ALEXANDRIA, VIRGINIA 22314**

OSA-2842-70
LA-71-113-322

REPLY TO:
Mr. Timothy H. Standifer
P.O. Box #9363
Rosslyn Station
Arlington, Virginia 22209

December 7, 1970

SUBJECT : Contract Audit Repricing Proposal
Lockheed Aircraft Corporation
(Lockheed-California Company)
Burbank, California 91503
Contract No. LK-3613

TO : Contracting Officer (Attention: Lt. Col. B. Bailey)

1. This CPFF contract provided for work applicable to a classified program. Amendment No. 1, dated 10 September 1969, paragraph 2, contains the following statement:

" To accomodate the administration of minor program revisions, a "no-fee" change zone of 10% plus or minus the estimated cost for the total contract, excluding the fixed fee amount, is established. That is, as long as the estimated cost for the total contract excluding the fixed fee falls within the range of the estimated total contract cost plus or minus 10% no change in the fixed fee will be made. In the event that the upper or lower cost limits are exceeded a revised total contract cost would be proposed for negotiation at the time the Contractor deems necessary, but in no case later than 31 August 1970."

The contract estimated costs are \$115,740 and the fixed fee is \$9,260. Since the recorded costs approximate \$90,000, a contract repricing is required.

On-file OSD Release
Instructions Apply.

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2. We have examined the contractor's accounting records and financial operating procedures for the purpose of determining whether the amounts claimed for reimbursement by the contractor, as represented by the proposal submitted, constitute allowable costs under the terms of the contract. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary.

3. The results of our examination are presented in Exhibit A and summarized as follows:

	<u>Proposal</u>	<u>Auditor</u>	<u>Questioned</u>
Estimated Costs	\$90,000	\$87,418	\$2,582
Fixed Fee	<u>7,200</u>	<u>6,993</u>	<u>207</u>
Total Estimated Costs and Fixed Fee	<u>\$97,200</u>	<u>\$94,411</u>	<u>\$2,789</u>

4. There are no known unclaimed wages, unclaimed deposits, un-presented checks, or any potential credits or refunds.

5. The contractor has stated that there are no unsettled disallowances, outstanding contract legal actions, open insurance claims, or other unresolved items.

6. The contractor will certify that all Government property provided or acquired for this contract was either consumed in the performance of the work, delivered to the customer, or disposed of as directed by the customer.

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7. The final invoice and all required closing documents will be forwarded directly to your office.

8. Results of Negotiation. Negotiation meetings were held at the contractor's plant on 17, 18, and 19 November 1970.

a. The meeting on 17 November 1970 was for Government personnel. Those present were as follows:

Lt. Col. Burt Bailey
Richard Williams
Edward Lang
C.D. Heckman

The negotiator was furnished a copy of the rough draft report at this time.

b. At the meetings with contractor personnel, those present were:

<u>For the Contractor</u>	<u>For the Government</u>
R.L. Adair	Lt. Col. B. Bailey
R.T. Passon	R. Williams (part time)
T.L. McLoud	E. Lang
R. Parsell (part time)	Wm. Atkinson
	C.D. Heckman

c. The results of the negotiation are shown below:

	<u>Contractor's Proposal</u>	<u>Government Offer</u>	<u>Amounts Negotiated</u>
Final Costs	\$90,000	\$87,400	\$88,500
Fixed Fee	<u>7,200</u>	<u>7,000</u>	<u>7,080</u>
Totals	<u>\$97,200</u>	<u>\$94,400</u>	<u>\$95,580</u>



ARTHUR G. HANLEY
DCAA Representative-APL

EXHIBIT A

SUMMARY OF COSTS RECORDED, PROPOSED, AND QUESTIONED

	Recorded Costs Through 9/27/70	Contractor's TWX Proposal	Auditor For Acceptance	Amounts Questioned	Explanatory Note Reference
<u>Factory Direct Labor Hours</u>					
1969	1,715.7		1,715.7		
1970	<u>2,370.0</u>		<u>2,370.0</u>		
	<u>4,085.7</u>		<u>4,085.7</u>		
<u>Factory Direct Labor Costs</u>	<u>\$19,351</u>		<u>\$19,351</u>		1
<u>Factory Overhead</u>					
1969			\$13,726		2a
1970			<u>17,420</u>		2b
	<u>\$32,394</u>		<u>\$31,146</u>	\$1,248	
<u>G&A</u>					
1969			\$ 2,968		2a
1970			<u>3,176</u>		2b
	<u>\$ 7,976</u>		<u>\$ 6,144</u>	\$1,832	
<u>Materials and ODC</u>					
Recorded	\$29,527				
Estimate to Complete	<u>1,250</u>				3
	<u>\$30,777</u>		<u>\$30,777</u>	-0-	
<u>Estimated Costs</u>	<u>\$90,498</u>	\$90,000	<u>\$87,418</u>	<u>\$3,080</u>	
				(498)	4
<u>Fixed Fee, 8%</u>		<u>7,200</u>	<u>6,993</u>	<u>207</u>	5
<u>Total Estimated Costs and Fixed Fee</u>		<u>\$97,200</u>	<u>\$94,411</u>	<u>\$2,789</u>	

EXHIBIT A
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EXPLANATORY NOTES:

Note 1 - For all intents and purposes, this contract appears to be completed except for the final negotiated CRC overhead and G&A rates. Therefore, the auditor has recommended for acceptance the actual recorded direct labor costs. (A review of the records indicates that there has been no direct labor input from August 1970 through 18 October 1970).

Note 2-a. The auditor has used the same CRC provisional billing rates for 1969, as those used by the DCAA Resident Office, for both overhead and G&A.

Note 2-b. The most recent rates recommended for forward pricing by the DCAA Resident Office on 14 October 1970 were used by the auditor for 1970 overhead and G&A.

Note 3 - The estimate-to-complete item was paid on 8 October 1970.

Note 4 - This credit amount represents the contractor's reduction from recorded costs to the proposed estimated cost amount of \$90,000.

Note 5 - The rate of fee, 8%, is subject to the approval of the negotiator.